



# RAILROAD COMMISSION OF TEXAS

## INTERNAL AUDIT

November 1, 2022

Ms. Lisa Collier, First Assistant State Auditor  
State Auditor's Office  
1501 N. Congress Ave.  
Austin, Texas 78701

Re: Fiscal Year (FY) 2022 Internal Audit Annual Report

Dear Ms. Collier:

Chapter 2102 of the Texas Government Code requires that each state agency submit an annual audit report to the State Auditor's Office (SAO) by November 1 of each year.

In accordance with the statute, the FY 2022 Internal Audit Annual Report for the Texas Railroad Commission (RRC) is attached. The design of the report and the information contained within the report comply with the form and content requirements prescribed by the SAO.

Should you have any questions regarding this report, please do not hesitate to contact me at (512) 463-6502.

Sincerely,

A handwritten signature in black ink that reads "Paul S. Delaney".

Paul S. Delaney, CPA  
Internal Auditor  
Railroad Commission of Texas

Attachments: FY 2022 Internal Audit Annual Report  
FY 2023 Internal Audit Plan  
Final Report – External Quality Assurance Review

Cc: Wei Wang, CPA, Executive Director, Railroad Commission of Texas  
Sarah Hicks, Governor's Office – Budget and Policy Division  
Christopher Mattsson, Legislative Budget Board

# FISCAL YEAR 2022 INTERNAL AUDIT ANNUAL REPORT

## **I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on the website**

The FY 2023 Internal Audit Plan was approved by the agency's Commissioners on November 1, 2022. In accordance with the reporting requirements of Section 2102.015 of the Texas Government Code, the FY 2022 Internal Audit Annual Report (which includes the FY 2023 Internal Audit Plan) will be posted to the Railroad Commission's website within 30 days of its approval.

## **II. Internal Audit Plan for Fiscal Year 2022**

- Oil & Gas Division, Environmental Permits – Completed May 5, 2022
- Procurement Card Program – Completed July 21, 2022
- Surface Mining & Reclamation Division – (fieldwork phase)

## **III. Consulting Services and Non-audit Services Completed**

None

## **IV. External Quality Assurance Review (Peer Review)**

The RRC's Internal Audit Department's most recent peer review report is dated December 15, 2021, and a rating of "pass" was received. A copy of the peer review report is attached.

## **V. Internal Audit Plan for Fiscal Year 2023**

An annual risk assessment was performed which took the following risk factors into consideration:

- Strength of internal controls
- Number of years since last audit
- Number of findings on last audit
- Processing of cash payments
- Processing of credit card payments

Based upon the results of the annual risk assessment, the internal auditor developed the FY 2023 Internal Audit Plan. The scheduled engagements and their estimated number of hours to complete are shown below.

- Surface Mining & Reclamation Division – 410 hours
- Alternative Fuels Safety – Training – 275 hours
- Capital and Controlled Assets – 240 hours

A copy of the agency's approved FY 2023 Internal Audit Plan is attached.

## **VI. External Audit Services Procured in Fiscal Year 2022**

None

## FISCAL YEAR 2022 INTERNAL AUDIT ANNUAL REPORT (*Cont'd*)

### **VII. Reporting Suspected Fraud and Abuse**

The Commission is in compliance with the fraud reporting requirements contained in Section 321.022 of the Texas Government Code and Section 7.09 of the General Appropriations Act. The RRC's intranet homepage contains an internal Fraud Hotline to assist any employee who wishes to anonymously report fraud, waste or abuse within the agency. In addition, the website also contains a direct link to the SAO Fraud Hotline in case an employee wishes to send their complaint directly to the state auditor.

WAYNE CHRISTIAN, CHAIRMAN  
CHRISTI CRADDICK, COMMISSIONER  
JIM WRIGHT, COMMISSIONER



PAUL DELANEY  
INTERNAL AUDITOR

# RAILROAD COMMISSION OF TEXAS

## INTERNAL AUDIT




### MEMORANDUM

TO: Chairman Wayne Christian  
Commissioner Christi Craddick  
Commissioner Jim Wright

FROM: Paul S. Delaney, CPA  
Internal Auditor

DATE: November 1, 2022

SUBJECT: Proposed Internal Audit Plan for Fiscal Year (FY) 2023

November 1, 2022		
APPROVED	DENIED	ABSTAIN
<small>DS</small>  <small>DS</small>  <small>DS</small> 		

Chapter 2102 of the Texas Government Code requires state agencies to develop an annual Internal Audit Plan that is prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year. The Internal Audit Plan must be approved by the agency's governing board or by the administrator of a state agency if the state agency doesn't have a governing board. Once approved, the plan will be included in the agency's 2022 Annual Audit Report, which is due to the State Auditor's Office no later than November 1, 2022.

As per the statute, the Internal Audit Department has performed a risk assessment to determine which areas within the agency should be considered for audit. Based upon that assessment and input from Executive Management, the following areas are recommended for audit in FY 2023:

- Surface Mining & Reclamation Division (carryover from FY 2022)
- Alternative Fuels Safety – Training
- Capital and Controlled Assets

Your approval of the proposed Internal Audit Plan is requested.

Cc: Wei Wang, CPA, Executive Director

15 December 2021

Mr. Paul Delaney, CPA  
Internal Auditor  
Railroad Commission of Texas  
PO Box 12967  
Austin, Texas 78711-2967

Dear Mr. Delaney

I have completed a peer review of the Railroad Commission of Texas Internal Audit Department for the period between February 2018 and August 2021. In conducting the review, I followed the standards and guidelines contained in the Peer Review Manual published by the State Agency Internal Audit Forum (SAIAF).

The Institute of Internal Auditors (IIA) *International Standards for the Professional Practices of Internal Auditing and Code of Ethics*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) require that internal audit functions obtain external quality assurance reviews (peer reviews) to assess compliance with standards and the Act and to appraise the quality of their operations.

I reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of conformance with the IIA Standards, the GAO Standards, and the Texas Internal Auditing Act. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case but does imply adherence in most situations. Based on this review, I recommend:

- Internal audit establish routines to ensure required discussions with the Commission and Senior Management are completed systematically (Attribute Standard 1010)
- Internal audit establish a routine to communicate the potential impact of resource limitations as required by audit standards (Performance Standard 2020).

We also verbally discussed less significant opportunities to more explicitly conform to audit standards related to governance, risk management, and controls. Based on the information received and evaluated during this external quality assurance review, it is my opinion that the Railroad Commission of Texas Internal Audit Department receives a rating of "**Pass/Generally Conforms**" and is in compliance with the IIA Standards, the GAO Standards, and the Texas Internal Auditing Act. This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

The Railroad Commission of Texas Internal Audit Department has reviewed the results of the work performed by the peer review team and accepted them to be an accurate representation of their operations. To the extent lawful, the Railroad Commission of Texas agrees to hold SAIAF

and its officers and representatives harmless of any liability arising from the actions of the peer review team or issues resulting from the peer review.

**Rene**  
**Valadez**

Digitally signed  
by Rene Valadez  
Date: 2021.12.15  
09:17:16 -06'00'

Rene Valadez CIA  
Director of Internal Audit  
Texas Education Agency

CC: Wayne Christian, Chairman  
Christi Craddick, Commissioner  
Jim Wright, Commissioner  
Wei Wang, Executive Director

Attachment A: Conformance Ratings Definitions

Attachment B: Certification Memo